

COST *and* MANAGEMENT

VOL. XXIV

DECEMBER

No. 11

MAKING USE OF THE FACTS

By J. M. Thompson, C. A. 377

Mr. J. M. Thompson, C.A., is Vice-President and Comptroller of Canadian Westinghouse Co. Ltd. He was associated with Clarkson, Gordon & Company previous to his present position. Mr. Thompson holds membership with the Controllers Institute of America, Institute of Chartered Accountants of Ontario and the Society of Industrial and Cost Accountants of Canada.

HAVE WE NEGLECTED PSYCHOLOGY IN OUR BUSINESS RELATIONS?

By E. E. Sparrow 389

Mr. E. E. Sparrow is a charter member of the Personnel Association of Toronto and former member of the Regional War Labour Board for Ontario, he has had a varied career both in the professional and public service fields. Prior to assuming his present duties as chairman of the Workmen's Compensation Board of Ontario, he was with the Imperial Varnish and Colour Company Limited, working up from a factory position to that of Vice-President both in the Works and Sales divisions. Although he is also Honorary Chairman of the Personnel Committee of the Canadian Welfare Council, he still finds time for participation in Boy Scout and Y.M.C.A. work. He assumed his present position in 1948.

REGULAR DEPARTMENTS

Society Notes 362

New Members 364

Chapter Notes 370

C. and M. Round-Up 374

Student Section 398

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SOCIETY NOTES

THE NOVA SCOTIA SOCIETY MAKES PROGRESS

The Nova Scotia Society has lost no time in getting their educational program under way. As was previously announced, arrangements were made with Dalhousie University to conduct evening lecture classes in Accounting I and Business Mathematics. These classes are now in operation with twenty-three students registered in both classes.

At the same time, those students who are outside the Halifax area or for other reasons are unable to attend the lecture classes, were not overlooked. An excellent job was done by the Society in announcing throughout the province that these courses were available by correspondence through Queen's University and the University of Toronto. As a result, twenty-two students have registered for forty courses to be taken for study by correspondence.

The Educational Committee of the Nova Scotia Society, under the chairmanship of Spencer S. MacIntosh, C.A., R.I.A., is to be highly complimented on the exceptional results which have been achieved in such a short period of time.

The first meeting of the Halifax Chapter was held in the Ball Room of the Lord Nelson Hotel, on November 17, with fifty-nine in attendance. For this important occasion, Mr. Donald R. Patton, B.Com., C.A., R.I.A., was on hand to address the meeting. Mr. Patton is a Past President of the Quebec and Canadian Societies and is chairman of the Co-ordinating Educational Committee. This was the first opportunity in which many members of the Nova Scotia Society had in learning something of the background of the Society of Industrial and Cost Accountants of Canada. No one is better informed on this subject than is Mr. Patton, and he left the Nova Scotia members with a feeling of pride in the organization of which they had so recently played a part.

The meeting was ably conducted by the Provincial President, Charlie MacFadden, and for the time being the Chapter will be under the direction of the Provincial Officers.

SOCIETY NOTES

With the birth of the Halifax Chapter, the Society of Industrial and Cost Accountants of Canada now has twenty-nine Chapters in operation. The well-organized activity which has already taken place in Halifax marks the new Chapter as being one which will play no small part in the future development of the Society as a whole.

Greetings

The Season of Christmas is a time apart from the rest of the year. It is a hallowed time . . . a time aglow with cheerful friendliness and happy memories of the long ago.

Christmas emphasizes the dependence of men upon Mutual Faith, Understanding and Co-operation, as they travel the road of the years. That is the essence of the Christmas spirit at work in the world.

It is my pleasure to acknowledge and thank you for your contribution to that spirit in our efforts together during the past year.

TO ALL OF YOU

A VERY MERRY CHRISTMAS

NORMAN TERRY, President.

COST AND MANAGEMENT

New Members

BAY OF QUINTE CHAPTER

W. W. Shand, Bakelite Co. (Canada) Ltd.

CALGARY CHAPTER

J. H. Cluff, Foothills Aviation Ltd.

J. T. Anderson, Canada Cement Co. Ltd.

N. D. Pocock, Precision Machine & Foundry Ltd.

J. A. W. Bonister, Royalite Oil Co. Ltd.

Miss J. M. Dobson, Room 4, Basement, New Penley's Bldg., Calgary

A. L. Garrick, Home Oil Co. Ltd.

W. T. Chiles, 205—10th Ave. E., Calgary

EDMONTON CHAPTER

K. D. Watson, Northwestern Utilities Ltd.

Ray Boisvert, Waterloo Motors Ltd.

M. Chepurik, 12753 Fort Road, Edmonton

E. W. Yaremco, Sparling-Davis, Redwater

FORT WILLIAM - PORT ARTHUR CHAPTER

W. A. Adnoken, Marathon Paper Mills of Canada Ltd.

M. MacKay, The Great Lakes Paper Co. Ltd.

NOVA SCOTIA SOCIETY

E. A. Balcom, The Nova Scotia Power Commission, Halifax

C. D. Parker, National Sea Products Ltd., Maritime National Fish
Division, Digby

E. F. Atkins, Rafuse Motors Ltd., Bridgewater

L. S. Frellick, Steel & Engine Products Ltd., Liverpool

G. W. Smith, J. W. Smith & Sons, New Glasgow

R. L. Mahon, Stanfield's Ltd., Truro

A. J. Rice, Superline Oils Ltd., Halifax

H. W. Davis, H. Moraff Wholesale, Sydney

L. R. Haverstock, Nova Scotia Light & Power Co. Ltd., Halifax

T. F. MacDonald, Superline Oils Ltd., Sydney

E. F. Horne, Brother Street, New Glasgow

J. P. Murphy, Cosmos Imperial Mills Ltd., Yarmouth

L. M. McKenzie, Leonard Bros. Division, National Sea Products Ltd.,
North Sydney

K. L. Burgoyne, Leonard Bros. Division, National Sea Products Ltd.,
North Sydney

H. L. Gibbons, Nova Scotia Light & Power Co. Ltd., Halifax

R. J. Stacey, Leonard Bros. Division, National Sea Products Ltd.,
North Sydney

C. A. D. McElmon, Nova Scotia Light & Power Co. Ltd., Halifax

S. K. Morris, Nova Scotia Light & Power Co. Ltd., Halifax

D. G. Gregg, Nova Scotia Light & Power Co. Ltd., Halifax

G. A. Craig, Nova Scotia Light & Power Co. Ltd., Halifax

NEW MEMBERS

HAMILTON CHAPTER

- R. E. Edwards, Harding Carpets Ltd., Brantford
- M. Gaasenbeek, Hamilton Cotton Co. Ltd.
- J. C. Pacey, Canadian Westinghouse Co. Ltd.
- J. Rankin, Canadian Westinghouse Co. Ltd.
- F. G. Foster, 13 Crooks St.
- J. W. Lowry, Lowry Fuels Ltd.
- Miss Patricia Hone, Meakins & Sons Ltd.
- G. C. Duns, Canadian Westinghouse Co. Ltd.
- J. F. Blakney, Lake of the Woods Milling Co., Brantford

KINGSTON CHAPTER

- J. Diamond, Aluminum Co. of Canada Ltd.
- P. E. Murphy, Canadian Industries Ltd.
- R. E. Gray, Canadian Industries Ltd.
- H. Humphries, Canadian Industries Ltd.

KITCHENER CHAPTER

- R. H. Laidlaw, Federal Wire & Cable Co. Ltd., Guelph
- L. J. Moore, W. C. Wood Co. Ltd., Guelph
- W. J. G. Steele, James R. Kearney Corp. of Canada, Guelph
- D. A. Long, James R. Kearney Corp. of Canada, Guelph
- F. J. Fraser, The Bell Telephone Co. of Canada

LETHBRIDGE CHAPTER

- N. J. Cullan, Motor Car Supply Co. of Canada Ltd.

LONDON CHAPTER

- S. F. Press, Maxwell Ltd., St. Mary's

MONCTON CHAPTER

- G. C. Van Tassell, Public Accountant, Bathurst, N.B.
- H. D. Lockhart, Public Accountant, Moncton, N.B.
- R. B. Fullerton, Enamel & Heating Products Ltd., Sackville, N.B.
- W. W. Freeman, The Tribune Press Ltd., Sackville, N.B.

MONTREAL CHAPTER

- L. A. Assad, Waite Amulet Mines, Noranda
- A. E. Taylor, Canadian International Paper Co., Temiskaming

NEW WESTMINSTER CHAPTER

- R. Pare, Pleasantside, B.C.
- A. K. Robinson, B.C. Distillery Ltd.
- P. T. Wood, Timber Preservers Ltd.

NIAGARA CHAPTER

- J. E. Smith, International Business Machines Ltd., St. Catharines

OTTAWA CHAPTER

- W. M. Catto, Bowesville Road, Billings Bridges P.O., Ottawa
- Miss L. G. Harvey, Department of National Revenue
- M. E. Steggall, R. L. Crain Ltd.
- H. E. Bacher, Florence Paper Co. Ltd.
- G. B. Wallis, Dominion Government, Department of Finance,
Taxation Division
- A. B. Stanley, Department of Public Works

COST AND MANAGEMENT

J. G. Milne, Department of Finance
N. A. Griffiths, Ontario Hughes Owens Co. Ltd.
D. I. Shaver, Department of Finance

REGINA - MOOSE JAW CHAPTER

T. R. Bitz, Canadian Co-Operative Processors Ltd., Swift Current
D. L. Parker, Robin Hood Flour Mills Ltd., Moose Jaw

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James Holly, Saint John Dry Dock Co. Ltd.
I. L. Sear, The Christie Wood Working Co. Ltd.
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B. A. Robinson, H. M. Hopper Co. Ltd.
Herb Likely, Jos. A. Likely Ltd.
E. D. Smith, Murray & Gregory Ltd.

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W. V. H. Bouskill, Robin Hood Flour Mills Ltd.
E. W. Wiebe, Sask. Federated Co-Operatives Ltd.
N. Lucyshyn, Sask. Federated Co-Operatives Ltd.
R. E. Bartindale, Sask. Federated Co-Operatives Ltd.
D. S. Broste, City Hospital
Orville C. Carlson, Dairy & Poultry Pool

TORONTO CHAPTER

I. Rondberg, Canadian Bearings Ltd.
F. V. Kertesz, 101 Evelyn Ave., Toronto, Ont.
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D. W. Coles, British American Oil Co.
J. S. Bissell, Pilkington Bros. (Canada) Ltd.
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Miss May Okada, 393 Front St. E., Toronto, Ont.
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J. Usajewicz, Standard Auto Body Co. Ltd.
G. T. J. Cooke, Canadian General Electric Co. Ltd.
L. H. Honess, Farrington Manufacturing Co.
J. B. Beverly, The Ryerson Press
W. Hamilton, Pendrith Machinery Co. Ltd.
W. J. Wright, Shirriffs Ltd.
J. R. Deasy, Abitibi Power & Paper Co. Ltd.
A. H. Murcott, 226 Geary Ave., Toronto, Ont.
W. J. Andrews, Brigdens Ltd.
R. B. Reynolds, Shell Oil Co.
F. D. Wilson, 26 Ernest Ave., Toronto, Ont.
F. J. Nichols, Thor-Canadian Co. Ltd.
G. V. Harding, Massey-Harris Co. Ltd.
J. A. Kelley, Trane Co. of Canada Ltd.

NEW MEMBERS

G. T. Dunphy, Trane Co. of Canada Ltd.
K. LaR. Hagerman, Canadian General Electric Co. Ltd.
G. A. McLain, John Wood Co. Ltd.
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D. J. Kellett, Plybricks Co. Ltd.
L. A. Sherry, Massey-Harris Co. Ltd.
P. F. Wilson, Massey-Harris Co. Ltd.
J. H. Stoeckle, Massey-Harris Co. Ltd.
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A. M. Livey, The Toronto Star Ltd.
J. H. Virtue, Frigidaire Products Ltd.
E. S. Cheetham, Fittings Ltd.
P. T. Whitmore, Abitibi Power and Paper Co.
Miss B. A. Lake, The Bryant Press Ltd.
A. C. Bueler, Canadian Pacific Express Co.
D. J. Robertson, Northern Wood Preservers Ltd.
G. A. Bell, Lever Bros. Ltd.
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A. W. Paton, The Hobart Manufacturing Co. Ltd.
J. F. Kearns, Canada Wire & Cable Co. Ltd.
D. Houston, Crouse Hinds Co. Canada
W. J. Brown, Frigidaire Products of Canada Ltd.
J. J. Burns, A. & P. Tea Company
C. M. Bloomfield, Dulev Plastics Ltd.
V. Jarvis, Rexall Drug Co. Ltd.

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N. Mills, McCleery & Weston Ltd.
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H. J. McLelland, 1134 W. 11th Ave., Vancouver, B.C.
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R. D. Cruickshank, Vancouver Breweries Ltd.
Miss M. C. McPhedran, 1110 W. Georgia, Vancouver, B.C.
R. G. Gaudry, Canada Packers Ltd.
K. R. Sutherland, Robertson & Hackett Sawmill Co. Ltd.
J. D. Elliott, Apt. C, 3179 Point Grey Road, Vancouver, B.C.
G. R. LeBlond, The Robert Simpson Pacific Ltd.
T. D. Carney, Belmont Building, Victoria, B.C.
R. S. Shaw, Hudson's Bay Company
B. Thornber, Canadian Western Cordage
W. Patterson, Eburne Sawmill Division
R. G. B. Holland, Northern Construction and J. W. Stewart Ltd.
T. C. Dearlove, Pentagon Lumber Mill

COST AND MANAGEMENT

- K. J. Hunter, Restmore Manufacturing
- R. Hunter, B.A., Restmore Manufacturing
- R. H. Prissick, Canadian Broadcasting Corporation

VICTORIA CHAPTER

- D. P. Jefferson, c/o The Royal Trust Co.
- H. A. Fraser, The Royal Trust Co.
- R. H. Drinkley, Department of Education
- R. R. Leason, Hospital Inc. Service
- J. W. Rowan, Department of Public Works
- J. R. Davies, c/o Victoria Chamber of Commerce
- F. A. Cook, 715 View St., Victoria, B.C.
- R. A. Storrar, 918 Government St., Victoria, B.C.
- H. K. Kidd, Department of Lands and Forests
- C. H. Hocken, Island Freight Service, Victoria, B.C.
- J. H. Mitchell, British Columbia Provincial Government
- J. K. Siscoe, Colony Farm, Essondale, B.C.
- D. A. Hackwood, Sidney Roofing Co.
- T. Mawson, Vic Mar Electrical Engineering Co.
- V. J. Christison, Angus Marine Sale
- C. Hoff, Private Accountant
- C. Stevens, Insurance Adjustor

WINDSOR CHAPTER

- T. M. Yates, De Vilbiss Manufacturing Co. Ltd.
- L. H. Taylor, Eastern Canadian Greyhound Lines
- J. Welsh, Canadian Sirocco Co. Ltd.
- G. H. Tosh, Ford Motor Co. of Canada Ltd.
- F. W. Thompson, Canadian Industries Ltd.
- W. D. Swan, Ambassador Motors
- G. B. Ruiter, Ford Motor Co. of Canada
- T. J. Misiasz, Canadian Industries Ltd.
- A. F. Jackson, Sterling Products Ltd.
- J. D. Gignac, Chrysler Corp. of Canada Ltd.
- F. Foster, B.A., Ford Motor Co. of Canada
- D. J. Cousineau, B.A., 711 Huron Line, Windsor, Ont.
- R. T. Charlton, Murphy Tobacco
- R. J. Chappus, Ford Motor Co. of Canada
- D. H. Baxter, Canadian Industries Ltd.
- J. P. Anton, McColl-Frontenac Oil Co. Ltd.

NON-RESIDENT B.C. SOCIETY

- K. M. Whitelaw, Crow's Nest Pass Coal Co. Ltd., Fernie, B.C.

NON-RESIDENT ONTARIO SOCIETY

- A. S. W. Holt, Midland Public Utilities Commission, Midland, Ont.
- R. B. Brodribb, Porcelain & Metal Products Ltd., Orillia, Ont.
- B. A. Krug, Krug Bros. Co. Ltd., Chesley, Ont.
- C. E. St. Michael, Sault Structural Steel Co., Sault Ste. Marie, Ont.

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Chapter Notes

BAY OF QUINTE CHAPTER

The regular monthly meeting of the Bay of Quinte Chapter of the Society of Industrial and Cost Accountants was held in Latimer's Town Room, on Tuesday, November 21st, at 6.30 p.m.

The Chapter was host to guests from industrial and commercial industries at Toronto, Kingston, Batawa and Belleville. The following guests were present:—

Chairman Bob Taylor opened the meeting with a hearty welcome to Kingston Chapter and to Mr. Metcalfe.

George Carson, chairman of Kingston Chapter, expressed their appreciation at being invited to Belleville, noting that their small representation donated quality, rather than quantity.

Art Lockley then introduced the guest speaker, Mr. H. Metcalfe, president of the Ontario Society, and present vice-president and general administrator of Massey-Harris Company, Ltd.

Mr. Metcalfe mentioned his visits to the various Chapters across Canada, emphasizing that the Society is now a progressive organization, training over 1700 students and fast assuming the position of leader in its field.

Mr. Metcalfe's subject, "Executive Responsibilities", was of intense interest to those present. He began by defining the word "executive" briefly, as one who carries out the work of both employers and employees, adding several qualifications such as, ability to handle employees, desire to do a good job, deep sense of loyalty to the business and his superiors. He then went on to outline the training and qualifications necessary for an executive, such as a knowledge of the broader phases of business and a certain amount of imagination and foresight. The Society provides a training for those qualifications and a degree gives management a rule for measurement of the employee.

Carl Casey ably thanked the speaker, on behalf of the Chapter, following which, Art Lockley gave a short preview of the Christmas meeting. Les Lennox remarked on the successful visit of several members to Peterborough Chapter and introduced a new member to the fold, in Bill Shand, of the Bakelite Company.

CALGARY CHAPTER

Mr. John Payne, R.I.A., chief accountant of Pacific Petroleum Limited, was the speaker at the monthly meeting held at Palliser Hotel, on Wednesday, November 22nd.

His subject, "Accounting for Joint Interest Ventures in the Development and Production Oil Industries", was introduced by giving due credit to individual initiative, which had pioneered oil discoveries in Alberta, but emphasizing that present development often called for group effort. Combinations of companies, or companies and individuals, were increasingly prominent in speedy growth of petroleum production.

A lively description of complications facing the accountant in joint ventures, was made in describing free hold leases, Crown leases, Farmouts,

CHAPTER NOTES

and Crown reservations. Provisions of agreements called for proportionment of lease costs, development costs, completion costs and proportion revenue. But, and this was the rub, often separate arrangements were proposed for each type of cost, and for each parcel of land. Provision was required for overriding royalties and priorities in repaying costs.

A letter from the National President in regard to his recent visit to Calgary Chapter, was read and appreciated.

HAMILTON CHAPTER

The regular monthly meeting of the Hamilton Chapter of the Society of Industrial & Cost Accountants was held in the Royal Connaught Hotel, November 16th.

After the dinner part of the meeting, the visitors, 15 in number, were welcomed by the Chairman, J. Bracewell.

Mr. G. L. Sortet, Comptroller, of the Firestone Tire & Rubber Co. of Canada, Ltd., who was a special guest, gave a short talk on what was expected of employees by top management. In his opinion, "thinking" was of prime importance.

The speaker of the evening, Mr. Bruce Taylor, C.A., manager of the Toronto office of the F.E.C.B., was then introduced by D. B. Davidson. Mr. Taylor traced the functions of the board from its inception in September, 1939, right up to the present time.

The rationing restrictions in foreign currency helped Canada to balance her United States dollar and sterling account and during the all-out war years the balance of U.S. dollars climbed to a healthy condition.

OTTAWA CHAPTER

The October meeting of the Ottawa Chapter was held in the E. B. Eddy Company cafeteria, with W. J. McDougall, C.A., presiding as chairman. Following the dinner, Bill Huck, of the Department of National Revenue Taxation, introduced the speaker of the evening, D. R. Pook, C.A., Director, Corporation Assessments (Finances and Services) Department of National Revenue (Taxation), who spoke on the new depreciation regulations and taxation of private companies. Mr. Pook traced the history of depreciation from World War I period, when the rates were at the discretion of the Minister, to the present day of capital cost allowances. Mr. Pook was thanked by R. Martin, C.A.

The tenth anniversary of the organization of the Ottawa Chapter of the Society of Industrial and Cost Accountants of Ontario, was celebrated with a dinner meeting in the Chateau Laurier Hotel, with Chairman C. B. Watt presiding. R. Martin reviewed the history of the Chapter, recounting some of its trials and tribulations, tracing the growth over the past ten years, from twenty to its present sixty-five members. He recognized the chairmen who guided the local Chapter during this period:—C. A. L. Poudrier, 1940-1941; F. E. Wood, 1941-1942; R. Martin, 1942-1943; J. S. Benson, 1933-1944; G. H. Johnson, 1944-1945; A. G. Hyndman, 1946-1947; D. R. Hutton, 1947-1948; C. B. Watt, 1948-1951, and introduced the speaker, the former chairman of the Chapter, Frank E. Wood, O.B.E., secretary-treasurer, Marathon Paper Mills of Canada, Port Arthur, who spoke on some problems of budgetary control in the pulp and paper in-

COST AND MANAGEMENT

dustry. The speaker was thanked by Gordon Wallis, of the Department of National Revenue Taxation.

Harry Metcalfe, R.I.A., President of the Society of Industrial and Cost Accountants of Ontario, brought greetings of that body and pointed out that one of the prime purposes of the Society was to further education and generally increase the standards of the Industrial Accounting through our educational program, pointing out that our Industrial Accounting course was second to none in Canada. He appealed to the organization and general members to encourage young men in the education program of the Society.

TORONTO CHAPTER

The November meeting of the Toronto Chapter was not only the best attended meeting, but also one of the most successful of the past few years. At this meeting we were hosts to a large number of our friends from the Hamilton Chapter.

Attending as guests, were the following representatives from Accounting bodies in the Province of Ontario:—

H. E. Crate, President of Institute of Chartered Accountants; J. Lee, President of Certified Public Accountants' Association; W. I. Markle, President of Institute of Internal Auditors; C. O. Biggs, Chairman of Toronto Branch, Chartered Institute of Secretaries; L. Ceifets, of the International Accountants and Executives Corporation.

Also as guests were:—

R. J. Cudney, Deputy Provincial Secretary; R. H. Metcalfe, President; J. N. Allan, Secretary-Manager.

The speaker of the evening was Mr. B. D. McCauley, B.Sc., Supervising Engineer of Stevenson & Kellogg Ltd. The subject of his address was "Methods - Time Measurement", and Mr. McCauley, with the aid of a colour film, outlined a new approach to work measurement in an excellent talk. This was followed by a very lively discussion period, after which Mr. McCauley received the thanks and appreciation of the Chapter and sustained applause from those present.

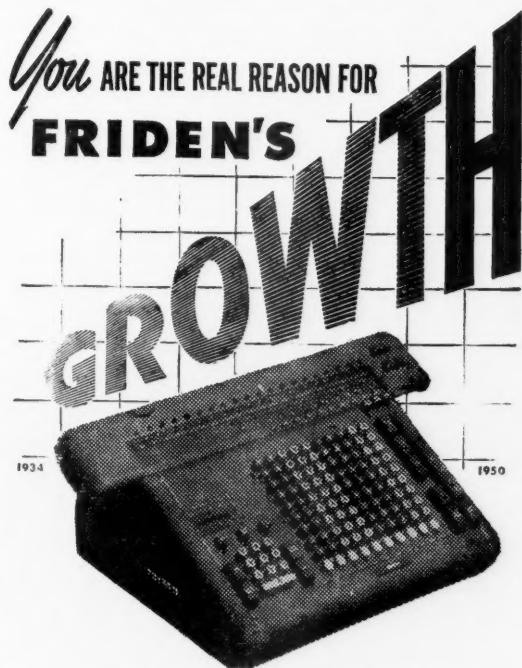
WINDSOR CHAPTER

The October meeting of the Windsor Chapter was held in the Norton Palmer Hotel, with an attendance of 79.

The Chapter had two distinguished guests, in the persons of R. Harry Metcalfe, President of the Ontario Society, and James B. Tennant, Immediate Past President.

Frank Bear introduced the speaker of the evening, Mr. K. W. Lemon, C.A., who spoke on "The New Depreciation Schedule". Mr. Lemon presented his subject in a clear, concise manner, explaining fully the sections of the Act which have brought about the greatest changes.

In the course of his address, he pointed out that the most consternation was caused because the new schedule might mean changing the system of records already in use. Mr. Lemon explained that the Department does not require this, and recommended that separate Asset and Reserve Accounts be kept on the books for simplicity. This will avoid serious distortion of operating statements and will provide the Cost Accountant with the information he requires.



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◆ C & M ROUND-UP ◆

By N. R. BARFOOT, R.I.A.

DEFENCE COSTS

Parliament estimates the annual cost to Canada of adequate defences to be one billion dollars. This is a tremendous sum, and in fact is more than the total spending budget of 11 years ago.

Before Korea, an annual 425 millions was contemplated. For the year's period '50-'51, an additional 250 millions is planned, making a grand total of 675 millions.

The one billion dollar annual budget is an estimate and there is every possibility that it may be more.

What are the economic factors as far as the ability of Canada to pay for defence at this rate?

In the years '39-'40, '40-'41, war-time spending totalled 870 millions or an annual 435 million. Gross national production in 1939 was short of six billions.

The G.N.P. is now over 16 billions. This simple comparison proves that one billion for defence at the present level of business is quite comparable to that spent in the early years of the '39-'45 war before spending had really got rolling. It is large, but not a crushing load.

An all-out effort would probably cost five or six times this present figure of one billion and in previous wars some states have spent as high as half of the total income for survival.

Britain at the moment is setting plans to spend one-tenth of her income on defence. The contemplated Canadian expenditure is 6% only.

AIR TRAVEL

1,222,099 air travellers paid \$39,444,218 to Canadian air lines last year for the privilege of getting there fast. Canadian business men are using plane service in an ever increasing degree each year. It is, of course, indispensable in making dashes to the capital city to protest each new ruling of the Tax Department.

C. & M. ROUND-UP

AUTOMOBILES

Production is approaching an all time high. During the summer and fall over 40,000 units per month have been shipped from Canadian motor plants.

EMPLOYMENT SERVICES

The National Employment Service is nine years old and has in that time found jobs for 9,635,796 unemployed. The Unemployment Insurance Fund has paid out 290 million and now totals nearly 600 million.

The Executive and Professional Division began work in August 1945 with the purpose of locating executives and specialists and providing further opportunity for those already employed in top positions. 16,134 people in this class have been placed.

The special placements division was opened in September 1945 to deal with the job location of men and women who were difficult to place, due to physical disability, advancing age and youthful inexperience. This division has made 63,200 placements in the past five years.

In late 1947, a counselling service was established in Toronto, to deal with the difficult over-45-year-old group of unemployed. The experience gained by this division has since been used by all local offices of the N.E.S.

EARNINGS

Earnings of Canadians working by the hour, reached a new high in the early summer. The average for all industries was 103.5 cents. Last year-end this was 100 cents. An upward revision of wage rates accounted for most of the increase. The durable goods industries showed an average hourly rating to its workers of 111.5 cents with an average weekly wage of \$49.06.

CO-OPS

Co-operatives did one billion dollars worth of business last year in Canada. Sales of farm products amounted to 783 million. The balance was made up of merchandise, farm machinery, clothing, etc. Membership totalled over 60,000.

NEWSPRINT

Every Canadian knows that Canada produces large quantities of newsprint, but did you know that:—

COST AND MANAGEMENT

World production is 9.5 million tons, Canadian production is 5.2 million tons?

Ninety per cent of this Canadian production worth over 400 million, goes to the United States.

Seven per cent is consumed in Canada and 3% sent overseas.

WARM WAR ECONOMY

Output of basic raw material is as follows:—

	1939	1950 (est.)
Aluminum, tons	82,840	375,000
Asbestos, tons	364,472	800,000
Copper, tons	304,412	275,000
Lead, tons	194,285	160,000
Nickel, tons	113,052	125,000
Zinc, tons	197,267	310,000
Iron Ore, tons	123,598	4,000,000
Steel, tons	1,551,054	3,200,000
Petroleum (crude) bbls.	7,826,301	28,000,000
Cement, bbls.	5,731,264	16,400,000

Obviously, Canada is in a much better producing situation than in 1939. However, it must be remembered that the large outputs of 1950 are being used in a peacetime economy and some facilities, particularly steel, are running at capacity.

This means that to absorb the defence program, drastic cuts in consumer goods production will be necessary. The more likely items are, of course, the big consumers of steel, automobiles.

There is an indication already from Parliament that consumer credit will be limited in an attempt to hold back retail sales of luxury items. The full treatment of price, wage and raw material controls do not appear to be planned for the immediate future.

Making Use of the Facts. Is the Information Factual?

By J. M. THOMPSON, C.A.,

Vice-President and Controller, Canadian Westinghouse Co. Ltd

What are the facts? There is a great difference between information based upon accounting concepts and that which is factual in a dictionary sense. For what purpose is the information to be used and by whom? These are important factors which must be given careful consideration in preparing and presenting financial information.

The subject, "Making Use of the Facts", could possibly better be described as "Telling the Business Story", for that is the job which we bookkeepers, accountants, controllers—call us what you like—are employed to do. We are the reporters and newsmen of the business world and our job is to tell the business facts to all who have an interest in them, and this includes management, labour, shareholders and the public alike. In addition to telling the facts, it is equally important that we should state them in a way in which they will be understood, simply, clearly and free of all accounting verbiage which, in most instances, is only understood by those accustomed to it through association and usage.

WHAT ARE THE FACTS?

Before discussing the use of facts, it is important that we understand what we mean by them. The facts to which I believe the title of this address refers are those figures which are shown on financial statements prepared from the books of accounts of corporations and the many reports and statements which flow from them in further explanation and interpretation of them. These facts are the charts and the technical instruments of business from which management steers its course in the troubled and turbulent waters of our free enterprise society.

According to the dictionary, a fact is a truth, reality, or a true statement. It is important that the accountant fully understands that the figures which he prepares are not factual in this dictionary sense but rather that these figures are based upon certain accounting concepts which have come to be recognized as acceptable and useful in explanation of business activities.

COST AND MANAGEMENT

In a recent article by George O. May in the May issue of the *Journal of Accountancy*, in a discussion on the "Truth and Usefulness in Accounting", Mr. May states that "accounting determinations must not be proffered to the unlearned as representations of fact" and then further states that "the validity of accounting postulates cannot be vindicated by appeals to truth. They are working hypotheses which are currently accepted as useful—a part of the 'framework of assumptions' on which accounting determinations rest. The question whether they continue to be useful is always open to reconsideration." As accountants, we must never be lulled into a sense of false security by the feeling that the figures we present are truths and are not based on such accounting concepts. To do this would be disastrous to those who depend upon us for guidance and information in making the decisions which they must in the exercise of their business judgment.

Several good examples of the difference between a fact and an accounting concept can well be illustrated by a consideration of the values which we place upon inventories and our treatment of depreciation. In our financial statements, inventories are carried at a certain book value. This value, however, has no meaning unless we know the basis upon which it has been determined. The real value of the inventory, which is a fact, is the value at which it will ultimately be sold and its cost recovered in the normal operation of business. (I am ignoring the fact that it could be sold through other than the normal operations of the business.)

The two bases used most generally for the valuation of inventories are "lower of cost or market" and "LIFO", although in practice it is very seldom that we find two companies valuing their inventories in exactly the same way, even though they are reputedly using the same method. I do not consider that it is necessary for me to comment to you on the fundamental difference between these methods or to point out to you that the operating results produced from their use may be entirely different when one is compared with the other. While either of these bases serves a very useful purpose in recording values in financial statements, from the point of view of management, unless the basis used is known and fully understood, there cannot be a proper interpretation and appreciation of the significance of the operating statements of the corporation. Furthermore, serious and consequential errors could be made in the company's

MAKING USE OF THE FACTS

policy of pricing its products which could result in substantial losses being incurred, or the sacrifice of profit margins that could otherwise be obtained.

The treatment of depreciation is another excellent example of the difference between accounting concepts and facts. The annual provision which is made for the wear, tear and exhaustion of facilities is, at best, only an educated guess based upon the estimated time during which they will be useful to the business. Such a provision certainly is not an accurate fact, although it is a fact that depreciation does take place. If a reasonably conservative policy is followed, it is customary to write off the value of fixed assets at a somewhat faster rate than the actual depreciation which takes place. For instance, a machine tool is usually written off over a 10-year period, whereas it is not unusual to find that its actual life is anywhere from fifteen to twenty years. The problem that arises, therefore, is, after the 10-year period has elapsed, should not some factor be included in costs for depreciation of this machine. Regardless of the value at which the machine is carried in the accounts and that statements of the ten previous years were inaccurate because the depreciation rate was too high, there still remains the fact that an asset which has real value is being consumed in the production of current goods. If no allowance is made in the costs for this usage and costs are used as a basis of determining pricing policy, then the company is failing to obtain in the sale of its product the amount to which it is entitled for the use of its machine. Furthermore, and particularly since we have been obliged by the Department of National Revenue to change the basis of depreciation from a "straight line" method to a "reducing balance" method, a proper interpretation of operating results with preceding years cannot be made without a full knowledge of the accounting treatment of depreciation.

There are many other illustrations that I could give to further exemplify this important principle of the difference between accounting concepts and what can be rightly regarded as facts. With the excellent training which most accountants receive to-day, I do not think it necessary for me to further emphasize this point and the obligation which rests upon all accountants to keep their management fully informed of the importance of properly interpreting these accounting concepts as reflected in the figures and information which we prepare.

COST AND MANAGEMENT

WHAT IS THE PURPOSE FOR WHICH THE INFORMATION WILL BE USED?

There is one very serious shortcoming which, in my opinion, many accountants have and which I wish to bring to your attention. While these accountants are excellent technically and have a thorough grasp of the tools which they use, they fail completely to fulfil their responsibilities in interpreting the facts of business to management by not having a proper and sound knowledge of their company's operations. They are too often satisfied to administer the affairs of their department, to see that the accounting figures are properly assembled in the accounts and that the balance sheet and profit and loss statement are prepared from them—and of course that they are in balance. I consider that an accountant, if he is to properly interpret the information made available to management through his department, must have an intimate knowledge of all phases and details of his company's operations. He should know the plant and its processes—not the technical detail—but a good working knowledge of how raw materials are received, how they are stored, processed, turned into finished goods and distributed to the customers. He should have a knowledge of markets and sales possibilities and should always look objectively at what the management of the company is doing. He should be a critic and should be able to exercise judgment on the decisions of management, always, of course, supporting such criticisms from the wealth of information and detail with which he is constantly surrounded and in touch.

I have a rule in my company that anyone requiring information, other than routine information supplied through periodic statements and reports, must route their inquiry through me. I am often criticized for this decision, since many department heads feel that they should be able to go directly to my staff and obtain the information which they require. I have a very good reason for instituting this rule, however, because experience has taught me that operating heads of departments often ask for information which entails a great deal of work but which, in many cases, is not what is actually required and would not serve the purpose which they have in mind. Apart from the fact that I wish to control any special work which might be undertaken by any member of my staff and also to allocate this work to the individuals whom I consider in the

MAKING USE OF THE FACTS

best position to prepare it, my principal object is to know the purpose for which the information is requested.

As accountants, we are all reminded from time to time that "figures do not lie but liars figure" and when we insist that we must know the reason for which we prepare information and for what the information is to be used, there is often skepticism because it is felt that we are attempting to get information to prove the point rather than simply present the facts of the case. Let me assure you that this is not so. It is my experience that information requested by operating heads is, in many cases, not the information which they really require. Sometimes data in much better form is already in existence, at other times the information asked for is incomplete and will not serve their needs, or again, sometimes what is requested is not what is really required at all.

I can illustrate this by a very simple instance which occurred to me some years ago. I was asked by one of our managers to supply him with the commercial cost of a certain product. I insisted on knowing something about why he wanted this particular information, and being informed I started to explain the basis upon which this commercial cost had been prepared. The manager, being of a rather short and intemperate nature, demanded of me a simple, straightforward answer. He only wanted to know what the commercial cost of this product was. He felt perfectly capable of making a proper decision, providing he was supplied with the information he requested. If I had not taken a strong stand and insisted that I get a full explanation, this man would have turned down business which, at the moment, was desirable for us to take. Since I was familiar with the product, with the loading in our shop and with certain other special circumstances of which he was not aware, I felt it was desirable and wise for us to accept this business at something less than our commercial cost. Now, normally in our business this would not have been the right thing to do, but in this particular instance it was. I use this rather simple illustration to point out to you that to fulfil our functions we must not be robots and simply turn out figures. With ready access to all the figures by which we conduct our business and an intimate knowledge of our operations, we are enabled to be of genuine help to our management in giving them assistance so that the greatest possible use and advantage is obtained from the facts and information which we possess.

COST AND MANAGEMENT

While I have dealt with the importance of knowing the purpose for which financial information is to be used in supplying information to the management of a company, it is of equal, if not more, importance when such information is being prepared for the use of parties outside the organization. The annual financial statements which are prepared by us are principally for the use of the stockholders. However, if a company were making an application to a bank for a loan, it would undoubtedly give a great deal more information than shown in its annual statements regarding its current assets and liabilities. If the information were being prepared for a prospectus for the sale of securities, the profit and loss information would be considerably revised to further supplement the information given in the annual report. In the case of public utilities, if the financial information were being presented for the purpose of establishing rates for a public commission, many corrections would be made to the published statements in order to bring out various factors which would be necessary to support their arguments for their rates or proposed modification of them.

I cannot too strongly recommend to you that under no circumstances should you be beguiled into supplying information unless you are fully aware of the purpose for which it is to be used—whether for internal purposes of management or for parties outside the organization. Without this knowledge of the purpose for which information is prepared, we cannot hope to give the service and assistance to our management which they are entitled to expect from us or for which they should hold us properly accountable.

WHO WILL USE THE FACTS?

In addition to knowing the purpose for which we prepare accounting facts, it is of equal importance to know for whom these facts are being prepared. When we present the balance sheet and profit and loss statements to the operating heads of our companies, we are entitled to assume that they possess some knowledge of accounting terminology and expressions to intelligently interpret these statements, although I must warn you that even in this regard you should not take too much for granted. However, we cannot assume that other members of our organization have the same ability, training or understanding of these facts as we expect of the heads of our companies.

MAKING USE OF THE FACTS

Operating managers are usually drawn from the ranks of the sales, engineering or manufacturing departments. Until assuming responsibility of management, it is seldom, if ever, that they have been called upon to deal with accounting information for the purpose of successfully operating a division of the business. In the preparation of information, therefore, it is essential to keep in mind the party who is to receive it and his capacity to understand such information, either because of lack of training or experience or, just as important, the mental ability to grasp the implications shown by such information.

It is this problem of the capacity of individuals to understand that has led many of our more progressive companies to "humanize" their annual financial reports. There is nothing wrong with the customary manner of preparing the published financial statements of corporations and to those who work closely with them it is a constant source of wonder that anyone should have the slightest difficulty in understanding them. The point is, however, that they are difficult to understand to the ordinary layman and the man on the street. It was in deference to the individual who would use this information that led these companies to change not only the wording of their reports but also the method of presentation so that they could be read simply and easily and the figures understood readily by anyone without the slightest knowledge of accounting practices.

This work which has been done in a public way with our annual statements should be done with all information which we prepare. We should always give consideration to the party who is to receive the report and attempt to prepare it in a manner which that individual will understand. It does not help anyone if only the accountant who prepared the information understands it but the party for whom it was prepared still remains uninformed.

PRESENTATION OF THE FACTS

In presenting financial facts, we are dealing, first, with reports and statements which are issued at periodic intervals, weekly, bi-weekly or monthly and usually prepared in the form of summaries taken from the balances appearing in various accounting records, and second, special reports prepared at the request of management which may cover any phase of the company's operations. These special reports are often in explanation of trends or inconsistencies noted in the periodic

COST AND MANAGEMENT

reports and are often used as a basis on which management takes action to correct conditions which are considered to be unsatisfactory.

It is axiomatic that the routine, periodic statements and reports should be prepared in a simple, concise and clear manner. I believe that every one of us takes it for granted that this is the type of report which he prepares. I am afraid, however, that too many accountants pay lip service to this tradition simply because these reports are easily understood and read by them. By way of an education, I recommend to all of you that you visit each of the parties who are receiving your reports and statements and instead of telling them what they mean, ask them for their interpretation of them. I am sure most, if not all, of you will be simply amazed at the explanations which you will receive. I have had this experience and I know.

I would recommend to you, therefore, that you institute a thorough review of all of your statements with the object of making sure they really are simple, concise and to the point. Eliminate unnecessary detail that only adds extra figures but does not give any essential information. Make sure that in all such statements there is some yardstick given so that they convey meaning to the party reading them. This may simply be a comparison of the previous month's or previous year's figures or a comparison with the budget or forecast or with standards or percentages considered to represent good performance. Regardless of the particular yardstick, be sure there is a yardstick shown, otherwise they have little meaning and are difficult to interpret without reference to other material. If you do not put comparisons on them, do not take it for granted that the party receiving them will perform this function for himself. The chances are he won't and the reports will simply be filed and forgotten.

After you have reviewed your reports, simplified and condensed them and are satisfied that those receiving them understand them and can make proper comparisons from them, then stick to them and do not change them. There is nothing more disconcerting to individuals who receive periodic reports than to find they are being constantly changed, and one of the greatest services we can render to these individuals is to keep the reports consistent from month to month and from year to year.

MAKING USE OF THE FACTS

In preparing special reports in response to a request from management, never get into the lazy habit of presenting these in a stereotyped and routine manner. The first requisite in making these reports is to know the man who is to receive them. Some individuals delight in long detailed written reports while others abhor them. Some can read a column of figures while others insist that figures are meaningless to them and prefer charts. Still others will look at neither figures nor charts and will want verbal reports. In supplying information the most important point is not to satisfy your own ego by preparing it in the manner which you think is most suitable, but rather attempt to please the individual receiving the information and give him what he wants and how he wants it. It is in this field of submitting special reports that we can often be of the greatest service to management. In fact, if we are on our toes we do not wait to be asked to make a report but have the initiative to draw to management's attention those matters which in our opinion require action or some decision by them. It is most important that in submitting reports of this type we act objectively and do not withhold significant factors or allow a personal bias or prejudice to creep into our conclusions. As accountants, we are not making decisions; we are simply providing the management with the facts upon which it is their responsibility to make the decisions.

With the increasing complexities of modern business to-day, the skill and ingenuity of accountants is continually being challenged to further control the great mass of figures and detail with which they have to deal in order to make them intelligent and understandable to management. The greatest single contribution which accountants have, as yet, made in this field is the "principle of exceptions". This means distinguishing the important from the unimportant, eliminating for consideration those figures which are up to standard and only dealing with those that show variations from standard. In dealing with exceptions, management is enabled to deal with the conclusions rather than with the details. It is upon this basis that the whole structure of standard costs has been erected and one that all accountants should adopt just as soon as they find that the information they are preparing is becoming too voluminous and too detailed for management to readily assimilate and grasp.

COST AND MANAGEMENT

TIMELINESS, ACCURACY AND RELIABILITY

It is a truism that news is one of the world's most perishable commodities. I like to think of the figures which we prepare as being news for these figures are really news—news of our business activities. There is little need for me to stress the point that accounting information prepared late has little more than historical value because the time for action by management has long since passed and their attention and efforts are concentrated on dealing with more current problems. Many of you may say that there is nothing you can do to speed up the preparation of existing reports and that is probably true, providing that you continue to prepare them along ordinary accounting lines to which you are accustomed. But if these methods fail to produce information promptly and speedily, then what you should do is change your methods. It may be necessary to be unorthodox and some degree of absolute accuracy may be sacrificed, but prompt information, reasonably accurate, is worth a great deal more than late information accurate to the last cent.

The process of speeding up accounting information is, I find, relatively simple. It consists of examining in detail the dates on which all accounting data is made available for incorporation into the accounts. From then on it is a matter of progressive development dealing with the data which is received latest and finding ways and means of speeding them up and so on. This process calls for imagination and ingenuity and willingness to entertain a new approach to an old problem. Some assistance can be obtained from mechanization and the use of modern equipment. Personally, I do not put too much stress in finding alleviation from this source. As a rule, it will be found that all that is required is a little foresight and planning, rearrangement of peak loads and willingness to compromise with meticulous detail where an approximation will be sufficient. It will often be found that the bottlenecks are with figures that have no material significance in the final results. The important thing, however, is the determination to let no obstacle stand in your way and use your own ingenuity and resourcefulness in overcoming a large number of small and petty details.

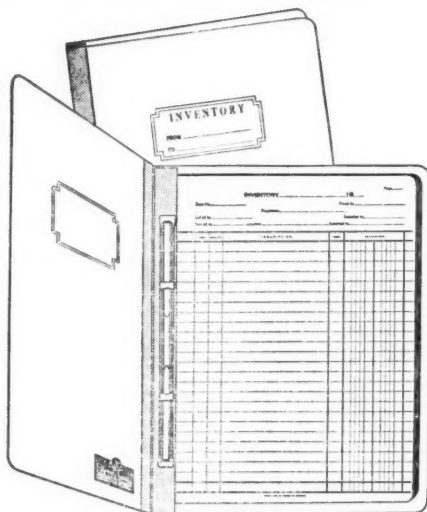
While the degree of accuracy we obtain in statements is something which we can control, unfortunately mistakes, which also affect the accuracy of statements, are not so easily con-

MAKING USE OF THE FACTS

trolled. If they happen too often, confidence in the statements is quickly lost and it takes a long time to rebuild this confidence once it has been shaken. The best preventative I know to protect ourselves against unfortunate errors before releasing them to management is to read over the statements, not as accountants but as we would if we were occupying the seat of management ourselves, and ask ourselves if the figures make sense. We should be satisfied that we can explain variations and differences from what is normal or to be expected. If statements are read in this manner, it will be amazing how many errors will be caught and corrected before they ever reach the desk of management. So, while it is important to issue figures promptly, do not do so in such haste that you do not take time to review and edit them. The extra time will be well worth while in obtaining accuracy and building and holding management's confidence in our work.

After timeliness, accuracy in figures is the next most important requisite. By accuracy I do not mean that every last item on our statements must be correct to the very last cent but accurate only to the extent that a reasonably clear picture is conveyed of the events that have taken place and upon which we are reporting. For many items, approximations are quite sufficient, as in the case of inventories where, because of the basis of valuation, they can only be accurate to a degree but never absolutely so, or again in the distribution of overhead charges to products or divisions where these distributions are often based upon arbitrary percentages so that the final figure can be more accurate than the assumptions which have been used in setting the percentages—and we all know what margin of error exists in making these assumptions. On the other hand, if we are dealing with cash we must insist on absolute accuracy right down to the last cent or if we are stating the amount a customer owes us this also must be accurate. The matter of accuracy is one of exercising good judgement so that we can feel at all times that the information given reasonably states the case, having regard always for the purpose for which the information is to be used.

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TORONTO

Have We Neglected Psychology in Our Business Relations?

By E. E. SPARROW,

Chairman, Workmen's Compensation Board of Ontario

Every responsible person in business must develop two skills. The one must relate to that activity in which he has specialized and the second is the ability to impart to others, knowledge of that skill. Mr. Sparrow offers some interesting suggestions on imparting and selling ideas to others.

Discussing problems of psychology with those of my friends who are professional psychologists, I have come to the conclusion that the science of psychology may be a little different from any of the other sciences and skills taught at university level. You see, those who are away out ahead of us in this field of psychology, and doing work of inestimable value to many different aspects of our industrial life, are first and foremost of an academic mind. In their research they are definitely limited in the application of their findings. And so it is that the science of psychology seems to advance best when the university professors do their research work, and the more practical people in business try to keep up with them, study with them, and introduce the practical side to this most interesting phase of human relations.

In other words, I feel that advances in the field of psychology can still be tremendous, but I believe that we must always remember that the academic psychologist still will require the assistance, if you will, of psychologists of amateur rank who are struggling to put into effect some of the findings in everyday business. In other words, there must be an increasing number of what, for want of a better term, might be called practical psychologists.

On one occasion, and not long ago, I listened to an excellent address by Dr. William Line, one of the leading psychologists at the University of Toronto. He was talking to a foreman's club and among many things he said, he left the impression with the foremen gathered there that he envied them their opportunities of dealing with such a wide cross-section of humanity as we find

COST AND MANAGEMENT

in our factories. Not only must foremen develop individual leadership skill but he added that indirectly our industrial foremen had a grand opportunity to help mould a democratic attitude, and thus offset the possibility of state control as we understand prevails behind the iron curtain.

IMPARTING KNOWLEDGE TO OTHERS

Every responsible person in industry instead of developing one skill must have two skills. The chemist must know his chemistry, the foreman must know the process or service over which he has charge, the cost accountant must be of course expert in this field, but there is one other skill which must be developed by all responsible people. It is supplementary to the skill that interest you the most as cost accountants. And very briefly, it is this: besides cost accounting, public accounting or other accounting skills, you must develop the ability to impart to others knowledge of such skill.

You have three levels of associates in business, those who are subordinate to you, including particularly the workers even though they may not be directly subordinate. Those of equal ranking responsibility, members of middle management as we now call the wide portion between top management and labour. And, of course, the top management people.

Now what can we find at those three levels? Your skill in accounting is recognized, of course, as the skill that draws you all together. It is your job. I am speaking of the second skill. In the case of our workmen, they are tremendously interested in rates of pay and whether it shall be an hourly rate or piece work, and most trade union people don't like piece work. There is the problem of rejected work cost. There is overhead. All of those matters are everyday things to you people, and I think that every day you try to be as accurate as you can in placing the costs of those things in their proper order and before the proper authorities. There is a new item of which we see more and more in the daily press and that is the matter of pensions. You rarely pick up a newspaper account of a new agreement where you do not see some form of pension good, bad or indifferent, referred to as having been granted. You realize in reading such a press account that even the trade union boys have translated pension cost to cents per hour. It is quite definitely a cost.

PSYCHOLOGY IN BUSINESS RELATIONS

In middle management, you find as someone of comparable rank, the members of the purchasing department. What does the purchasing agent do? From my experience, I suggest with all due respect, if he is going to buy a pigment he will buy the lowest priced pigment in that particular category. But those of you who know costs know that the lowest priced pigment is not always the best purchase because it may take twice as long to process as a pigment with an initially higher cost.

The personnel manager—where do you folks cross his path? Well, in a good many places. In the fundamental place, what kind of employees is he bringing into the staff? Are they efficient or inefficient? The selection of employees is quite definitely of interest to you in that it can raise or lower labour costs. Absenteeism, what does that cost your firm? Tardiness? The ten minute rest period that is twenty minutes at least? Staff training? That is a personnel department responsibility generally but does it affect costs? Quite definitely it does. I am just touching on these matters briefly. You realize they are merely examples of the contacts that cost accountants have with other people in middle management.

What about the general manager? There are all kinds of general managers, varying from the highly efficient to the pathetically inadequate you gather together to increase your store of knowledge about your particular skill, accounting, so do general managers gather together; sometimes I wonder if as effectively. But there is always evolution within industry, and I am speaking now of the general managers who know what is going on. Quite rapidly general managers are accepting the attitude that management by conference groups is desirable at least during the stage of inquiry into what to do about some new phase of business. They assemble some aspects of a particular problem and discuss together what can be done. Finally, the general manager exercises his prerogative and makes the decision. That is his inherent right and it shall always continue that way. But my point is, at such a conference what attitudes do you take? Do you find out what you believe the GM wants and then give it to him or do you learn suddenly that the GM is away off over in a corner and that if you say no to him there is going to be a row? I suggest for your further consideration that our industrial life now has no room for yes men.

COST AND MANAGEMENT

SELLING YOUR IDEAS

Now it is all very well to despise a yes man who tries to find out what his superior wants and then agrees with him. It is too bad to lead a tough general manager down a blind alley, but I suggest that the study of psychology is just as important in trying to influence the general manager to the right way of thinking as it is to influence the ranks of labour to the right way of thinking. Have you unconsciously developed into being a yes man? If your advice does not influence the GM, why hide behind the fact that you tried to tell him that such course of action wasn't good accounting. If you don't actually convince him of what is right, where is the difference between that kind of work and being a deliberate yes man? There is just one little difference—you can at least say on some future occasion: "Well, I was trying to tell you that, but you wouldn't listen to me."

The study of psychology makes it possible for all of us to go a great deal further debating before decisions are made. If you have trouble influencing the general manager it may be because you haven't taken the time, nor thought it necessary to consider the boss as one of your customers.

There was a philanthropist, who donated quite a large sum of money for the renovation of some buildings taken over by a charitable organization. A friend said to him after it was all over, "How did you get along?" He said, "Fine, but I had an awful time with certain people." "Well, how?" "Every time I went to do something one of these people would criticize the idea and say it shouldn't be done. I have come to this conclusion, that there are three sexes, men, women and accountants!"

Now the inference is that the accountants were right, but are we not talking about the use of psychology in your work? You see they were both right and wrong. They were no doubt right with their criticism, but wrong in their methods of going about getting this philanthropist to see eye to eye with them. They had not done a selling job.

I am reminded at this point of somewhat similar experiences I have had myself with personnel officers. During the War I was an unofficial clearing house for embryo personnel officers. The boys that wanted to go into that work would see that I knew of them. They would come to my office and discuss with me their ambitions. And employers as they reached the point where they knew they had to have personnel officers would

PSYCHOLOGY IN BUSINESS RELATIONS

'phone to see if I knew of any likely candidates. I was able to place quite a few personnel officers. But before I sent them out I would tell them. "This is a real chance but in two weeks' time you'll want to come back to me and ask why you ever went into this work." "You see, you'll not get along well with the boss." And yet these were all good men. And sure enough in two or three weeks they would 'phone and say, "I want to come down and see you."

What caused all this?

The boss reached the stage where his friends said to him, "You need a personnel officer." So he employs one and starts him to work. Pretty soon the personnel officer comes in and says, "Mr. Boss, I think it's time we did so and so." Of course, the boss hired him to give him advice but when he got that advice he said, "What have I got here, a radical?" Why? Because it was diametrically opposite to what he thought he wanted, although it was usually right. I would 'phone the boss and tell him that what the new personnel officer was recommending had been done for the last few years and that I supported the personnel officer in his recommendation.

The point I am stressing is that the men going into personnel work in those days knew about personnel work, but they knew nothing about selling. It boils down to this then, that it is just as important for you to know how to sell as it is for a salesman to know how to sell. And, rather peculiarly, the very textbooks that salesmen use to improve their selling capacity, you can use. I have used them and so have a lot of foremen with good effect, because their textbooks are founded on practical psychology.

Your sales manager could be particularly useful at this level in helping cost accountants know something about selling efforts. He has a training programme for his salesmen, and certain phases are quite useful to you in learning more about the psychological approach to get across cost accounting ideas to other associates in your business.

In the field of accident prevention I have often recommended that the advertising manager go out into the factory and do a job of selling. Only 20% of our accidents occur on machinery, 80% of our accidents are the result of falls of persons and other similar causes. It is entirely a selling job; educational job, if you will, but I much prefer the word "selling".

COST AND MANAGEMENT

And why? Because all of us fall into the rut of thinking that we receive education at school, public, high, university, and we aren't too sure that we want to continue to receive education for the rest of our lives. But that is the case in any kind of work. As long as you are interested in accounting, you will be studying ways and means of improving that particular skill. You will be educating yourselves. But I think it is much better to speak of it as selling because in business a customer never remains sold. He has to be sold year after year.

There is another point I would like to mention. The difference in selling products and selling ideas. There is a vast difference. A product once sold remains sold unless there is a deficit and a guarantee clause permits its return. Otherwise, the customer keeps the product. But when you sell an idea, how long does it stay sold? I always think of my good wife and the time she sold me the idea of buying her a fur coat. After she was through I thought it was a grand idea. It necessitated me going down to see the bank manager. When I got through with him there was no fur coat. To put it mildly, my wife's attempts to sell an idea was offset by the bank manager's greater ability to sell an idea. It is quite apparent that selling ideas and selling products is different, and the selling job that I suggest for you is tougher by long odds than selling products. Take any nationally known brand of goods—let's take paint; I know that better than anything else. Get the hardware merchants' shelves filled with your paint and it's pretty hard to get somebody else's paint in there. But get somebody else's paint on those shelves and it's pretty tough to get yours in. I'll admit that. But you see the difference. An idea can be lost to your customer at any time. He can take an idea from you and think it's good and discuss it with somebody else and the somebody else, a better salesman, more convincing, will switch his thinking. You never know whether you've made a sale or not. And thus I say while yours is an accounting job and a selling job, it's a tough selling job because you are selling ideas and not articles.

Now it may be true that you have neglected psychology in your business relations. If so, I can be sympathetic. Certainly yours is not the only skill where psychology has not been used to additional advantage. In the second place, yours is a very exacting work—2 plus 2 equals 4; 10 plus 15 plus 25 seconds equals 50 seconds. You know you are accurate. There cannot

PSYCHOLOGY IN BUSINESS RELATIONS

be room for debate or a difference of opinion. But the salesman who has the privilege of selling the best product in this country in any competitive line just can't go and sell such a product on that basis—he has to prove such a statement before he makes a sale.

While you know the profound nature of figures, you forget possibly that your potential customers feel just the reverse. Too often figures have been used to deceive. "Figures don't lie, but liars figure". How do the trade union people regard your overhead statements as well as your methods of "hiding profits"? "Where have all your reserves gone to," say the trade union leaders.

You gentlemen have a selling job to do—one that reaches far beyond the confines of your own offices and your particular companies. It seems to me, that from a psychological standpoint it is a challenge to you and other groups of accountants to see that the public becomes more familiar with your work because in talking with trade union people—and I had a few years' experience on the Regional War Labour Board controlling wages—when I would bring up this point of overhead and profit they would smile mysteriously. So, you see, because you are accurate, it doesn't mean that you have sold your stuff. But, because you are accurate you have a perfect right to sell your thinking to the other fellow diplomatically and tactfully so that finally when you say a figure is right he believes you. Selling best can be done when you understand what the other fellow is thinking.

TACT IN INTRODUCING NEW IDEAS OR SYSTEMS

To be tactful from design—and some of us may claim to be tactful from birth—but to be tactful from design, you must understand the other fellow. For diplomacy to be successful it takes two people, you and the person with whom you are trying to be diplomatic. If he isn't convinced by your efforts, you haven't been diplomatic. And how often do we hear the story, "I have tried for three years to tell that chap that thing"?

It is at that level that I think accountants should study psychology because if your attempts to be diplomatic with other people are not successful, then I say finally you are not diplomatic. But you can be by trying, trying, trying, learning, learning, learning.

COST AND MANAGEMENT

One of the better small pamphlets of a psychological nature I have seen used in industry is one entitled "How To Be Human on the Job" by Wallace G. Strathern, published by National Foremen's Institute Incorporated, New London, Connecticut. There are nine laws. I will only deal with one or two of them quickly. The first one is a very simple one: Be Friendly. This applies to your own staff and the staff with whom you meet who are your associates in the plant or office, but over whom you do not have authority. You are trying to develop their confidence in your figures, and it takes a lot to do that just the same as in the case of a salesman who may take quite a while to develop confidence in a potential customer. So in being friendly with these people you go a long way towards developing confidence.

It is highly important for you and your staff to be on a friendly basis, not that you are going to condone things that shouldn't be done, but when you have to criticize a subordinate, learn to do it in such a manner that you do not develop a reputation for being a nag. Too often the only time a boss speaks to a subordinate is when criticism is necessary. My attitude in that direction is that when criticizing a subordinate, you should, before you criticize, or a few days afterwards, compliment him. You may say, "That's all eyewash!" Sure. But it has been proven in other fields than business where that kind of thing is important, too.

Just stop to think about your home. Most of us reach the stage where we can get along splendidly with our wives and without too much conversation. But when you go home night after night and the only thing the wife says to you is in the form of criticism, it's not so good, is it? Or if the only thing you do is criticize your good wife, it's not so good. Actually you will find that constructive criticism will stay put and do a lot more good if there is also some complimentary remarks on some other occasion about some other matter.

"Don't Argue", it says in this book. You cannot win an argument, because the moment you win an argument you lose a friend. And what are you trying to win anyway? Are you just fighting for fighting's sake, or are you trying to be convincing. You can debate, yes. But I don't like arguments, for the simple reason that if you win the argument, you have generally lost the respect of the person whom you started out in a mild manner

PSYCHOLOGY IN BUSINESS RELATIONS

to influence. You really lose customers fast by arguing with them. When you see a heated argument developing, why not terminate it immediately by saying, "Wait, we don't need to discuss this any further to-day. Goodness gracious, it isn't that important. Let's get at it in two or three days' time." It takes a "big" man to do that, however, because when you are getting hotter and hotter all you want to do is go on and win the argument. I say "till you win the argument"—that isn't what you started out to do at all; you started out in a mild tone to convince this fellow you were right. But you got angry and now are spitting at him with your hair standing up on end. What have you accomplished? Not anything except this, that the next time you try to convince him, he is harder to sell than ever because of your winning the argument and losing his friendship.

Finally, what about the customer, your customer, your company's customer? The customer is the top boss of all in industry. If he withdraws his support, to what avail all of your shareholders' investments, all of your board of directors' deliberations? Out of my experience I know only too well the unreasonable demands of some customers both as regards service and price. I know, too, the oftentimes serious conflict between the sales department and the cost department in this matter of price setting.

It is my part to suggest, because I am dealing only with psychology as it applies to your work, that you people are responsible for knowing costs and you must, in addition, know better, if you will, the psychological barriers that your company's salesmen are up against. To send them out on the road cold and unenthusiastic because of some heated arguments over cost or selling prices is to assure an almost "no sale" report.

Nobody works in business except for a profit. Profit is, finally, essential. And you cannot make a profit without knowing costs. So I say that you could twenty-five years from now, or sooner, help and inspire all other departments. There is no limit to what you can do as individuals or as a group, once you realize the importance of understanding the processes first of your own mind and then the minds of your associates in the business world.

And, finally, remember—and certainly these are not my words, but I subscribe to them—the fortunate man is he who knows so much about his job he knows how little he knows.

« STUDENT SECTION »

By J. D. CAMPBELL, R.I.A

ACCOUNTING I

QUESTION 1 (10 Marks)

Indicate the purpose or purposes served by each of the following in accounting:

- (a) control accounts
- (b) adjusting and closing entries
- (c) specialized books of original entry
- (d) accrued expenses or charges and deferred income or credits

Solution

- (a) Control accounts—

- (1) enables the operation of principle of division of labour in posting procedure.
- (2) facilitates preparation of financial statements by elimination of detail from general ledger.
- (3) internal check.

- (b) Adjusting and closing entries—

enable the completion of the incompletely recorded transactions when the financial position is required, Adjusting—mechanically separates the mixed accounts into their real and nominal parts—*adjusted trial balance closing*—mechanically closes out the nominal accounts to profit and loss and transfers the net balance in profit and loss to the proprietorship account.

- (c) Specialized books of original entry—

enables the application of the principle of division of labour to the primary recording procedure.

Provides a summary of similar transactions.

- (d) Accrued charges and deferred credits

accrued charges—liabilities which are not recorded on the books but which should be recorded in order to show as accurate as possible the financial position at any point of time.

Deferred credits—liabilities which have been recorded on the books which are real at the date the financial position of the concern is being determined and must be segregated by adjusting entries from the nominal portions if they are in a mixed account.

The average mark obtained in this question was 50.5% and was accounted for by the fact that the students failed to set out in their answers the essential purpose served by the items indicated. In a number of cases where more than one purpose was served, the student was penalized for failure to present the complete answer. One of the most noticeable errors was in regard to the use of the control accounts and the specialized books of original entry, as to which of these served the essential purpose of assisting the division of labour which becomes necessary as the business organization expands.

STUDENT SECTION

Although the mechanical purposes underlying adjusting and closing entries and deferred credits and accrued charges was in most cases well answered, very few students indicated the under-lying reasons why these mechanical steps were necessary.

ACCOUNTING II

QUESTION 1 (15 Marks)

Draft a table as set out below indicating thereon the effect of the correcting entries which should be made covering the situations indicated.

Item	Earned Surplus 1948		Profit and Loss 1949		Balance Sheet Correction 1949		
	Dr.	Cr.	Dr.	Cr.	Account	Dr. or Cr.	Amt.

- (a) Overstatement of inventory 31st December, 1948, of \$2,210.00.
- (b) Omission of purchases of \$1,120.00 in 1949. Item is included in inventory 31st December, 1949.
- (c) Bad debt \$400.00 arising in 1947 written off by a charge to bad debt expense in 1949.
- (d) Accrued wages \$850.00 not recorded on the books at 31st December, 1949.
- (e) Deferred expense \$90.00 omitted from the books 31st December, 1948.
- (f) Furniture purchased on 1st January, 1946, for \$12,000 was lost by fire 31st October, 1947. No insurance was carried. The loss was never recorded. Depreciation has been charged for 1946, 1947 and 1948 at 10% per annum.
- (g) Deferred income \$230.00 omitted 31st December, 1947.
- (h) Deferred income \$338.00 omitted 31st December, 1949.
- (i) Bad debts, 1948, \$450.00 charged to profit and loss, 1949.
- (j) Provision for bad debts 31st December, 1949, omitted \$540.00.
- (k) Understatement of inventory 31st December, 1949, \$2,300.
- (l) Item charged to repairs instead of plant 30th June, 1949, \$400.00.
- (m) Depreciation on item (1) annual rate of 10%.

The answers submitted to this question indicated, in a majority of cases, that the students failed to recognize the fundamental nature of the information given in the Schedule set out. The two columns of Earned Surplus, 1948 and Profit and Loss, 1949, represented the effect upon the surplus as it would appear in the Balance Sheet of 1949. The column of the balance sheet correction 1949, should have shown the adjustment for any items which affected the over-all surplus picture. The major number of errors in the answers to this question occurred as a result of this apparent failure to recognize the nature of the information which was required. In the case of Sub-section E, where the item would result in a credit adjustment to Earned Surplus, 1948, off-set in a debit in the Profit and Loss, 1949, the earned surplus at the 31st December, 1949, required no adjustment. Therefore, no entries would be necessary on the balance sheet changes.

COST AND MANAGEMENT

The outstanding error which occurred in the answers to this question, arose out of the failure on the part of the student to recognize that the debits must off-set the credits. This arose in the case of Sub-section K, where the understatement of inventory was shown in the Profit and Loss column, and the Balance Sheet Correction shown as inventory debit.

Sub-section G required no adjustment, since the deferred income omitted was at the 31st December, 1947 and was presumably corrected in 1948, giving a credit to Earned Surplus at the end of 1948. The student, in a large number of cases, failed to recognize the correction in 1948 Profit and Loss.

Numerous students failed to correctly interpret the item of deferred income set out in Sub-section H. This item is in the nature of a deferred credit omitted on the Balance Sheet Correction, which would be a credit to Deferred Income, and not a debit as previously noted.

Under Sub-section M, the depreciation was to be calculated on a half-yearly basis. In only one case, where the full year's depreciation was taken, was an explanation indicated, which enabled the marker to give full credit, on the basis that the student recognized the problem involved.

Solution

Item	Earned Surplus 1948		Profit and Loss 1949		Balance Sheet Correction 1949		
	Dr.	Cr.	Dr.	Cr.	Account	Dr. or Cr.	Amt.
(a)	2210			2210			
(b)			1120		Accounts Payable	Cr.	1120
(c)	400			400			
(d)			850		Accrued Wages	Cr.	850
(e)		90	90				
(f)	8400				Furniture and Fixtures Reserve Depreciation	Cr.	12000
(g)						Dr.	3600
(h)			338		Def. Income	Cr.	338
(i)	450			450			
(j)			540		Reserve Bad Debts	Cr.	540
(k)				2300	Inventory	Dr.	2300
(l)				400	Plant	Dr.	400
(m)			20		Reserve Depreciation	Cr.	20

